

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Bay Metropolitan Transportation Authority</b>	County <b>Bay</b>
Audit Date <b>9/30/05</b>	Opinion Date <b>11/10/05</b>	Date Accountant Report Submitted to State: <b>1/19/06</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) <b>Abraham &amp; Gaffney</b>			
Street Address <b>3511 Coolidge, Suite 100</b>		City <b>East Lansing</b>	State <b>MI</b>
		ZIP <b>48823</b>	
Accountant Signature <i>Abraham &amp; Gaffney, P.C.</i>		Date <b>1/10/06</b>	

**Bay Metropolitan  
Transportation Authority  
Bay City, Michigan**

**FINANCIAL STATEMENTS**

**September 30, 2005**

BAY METROPOLITAN TRANSPORTATION AUTHORITY

TABLE OF CONTENTS

September 30, 2005

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	i-ii
MANAGEMENT'S DISCUSSION AND ANALYSIS	iii-vii
BASIC FINANCIAL STATEMENTS	
Statement of Net Assets	1
Statement of Revenues, Expenses, and Changes in Fund Net Assets	2
Statement of Cash Flows	3
Notes to Financial Statements	4-13
OTHER SUPPLEMENTARY INFORMATION	
Schedule of Operating Revenues	14
Schedule of Operating Expenses	15
Schedule of Nonoperating Revenues - Local	16
Schedule of Nonoperating Revenues - State and Federal	17
Net Eligible Cost Computations of General Operations	18
Schedule of Ineligible Expenses	19
Schedule of Vehicle Hours and Mileage Data (Unaudited)	20
Subrecipient Schedule of Operating and Nonoperating Revenues (Unaudited) - Arenac Opportunities, Inc.	21
Subrecipient Schedule of Operating Expenses (Unaudited) - Arenac Opportunities, Inc.	22
Subrecipient Schedule of Nonoperating Revenues - State and Federal (Unaudited) - Arenac Opportunities, Inc.	23
Subrecipient Net Eligible Cost Computations of General Operations (Unaudited) - Arenac Opportunities, Inc.	24
Subrecipient Schedule of Vehicle Hours and Mileage Data (Unaudited) - Arenac Opportunities, Inc.	25
Schedule of Expenditures of State Awards	26-27
Reconciliation of State Awards	28
SINGLE AUDIT SECTION	
Schedule of Expenditures of Federal Awards	29-30
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	31
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	32-33
SCHEDULE OF FINDINGS	34
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS	35

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INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Bay Metropolitan Transportation Authority  
Bay City, Michigan

We have audited the accompanying financial statements of the Bay Metropolitan Transportation Authority as of and for the year ended September 30, 2005, as listed in the Table of Contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bay Metropolitan Transportation Authority as of September 30, 2005, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2005, on our consideration of the Bay Metropolitan Transportation Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, as identified in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise Bay Metropolitan Transportation Authority's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, and Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Bay Metropolitan Transportation Authority. Such information, except for the portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

November 10, 2005

# BAY METROPOLITAN TRANSPORTATION AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2005

As management of the Bay Metropolitan Transportation Authority ["the Authority"] we offer to readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Bay Metropolitan Transportation Authority for the fiscal year ended September 30, 2005.

### Financial Highlights

- The net assets of the Authority exceeded its liabilities at the close of the most recent fiscal year by \$5,878,931.
- The Authority's total net assets decreased by \$1,247,020 as the result of current year activities. Of this figure, \$1,172,868 [94.1%] of the decrease was attributable to the depreciation of capital assets.
- A reduction in State formula operating assistance reimbursement percentage of approximately 4% [about \$140,000] during the fiscal year had a serious impact on operations.
- As a result of the reduction in State assistance all federal assistance was used to support operations, thereby causing the Authority to defer replacement of some capital equipment; for example lift vans and maintenance equipment.
- Total eligible operating expenses increased by \$302,873 [4.6%] over the previous year due largely to increased wage and benefit costs and the dramatic increase in the cost of fuel.
- Total expenses [including depreciation of capital assets] increased by \$288,869 [3.7%] and resulted in a loss of \$7,377,775 before capital contributions, State and federal grants, and local millage receipts are considered.
- Retained earnings were reduced by \$209,526 during the fiscal year.

### Overview of the Financial Statements

This Management Discussion and Analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements comprise four components: statement of net assets; statement of revenues, expenses and changes in net assets; statement of cash flows; and notes to the financial statements.

The statement of net assets presents information on all of the Authority's net assets and liabilities with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. The statement of net assets is shown on page 1 of this report.

The statement of revenues, expenses and changes in net assets presents information on revenues, expenses, capital contributions, and how the Authority's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the changes occurs, regardless of the timing of related cash flows. Thus revenues, expenses and capital contributions are reported in the statements of some items that will only result in cash flows in future fiscal periods. The increase or decrease in net assets may serve as an indicator of the effect of the Authority's current year operations on its financial position. The statement of revenues, expenses and changes in net assets is shown on page 2 of this report.

The statement of cash flows summarizes all of the Authority's cash flows into four categories: cash flows from operating activities; cash flows from noncapital financing activities; cash flows from capital and related financing activities; and cash flows from investing activities. The statement of cash flows is shown on page 3 of this report.

The statement of cash flows, along with related notes and information in other financial statements, can be used to assess the following: the Authority's ability to generate positive future cash flows and pay its debts if and when they occur and/or mature; the reasons for the differences between the Authority's operating cash flows and operating income [loss]; the effect of cash and noncash investing, capital, and financing activities on the Authority's financial position.

# BAY METROPOLITAN TRANSPORTATION AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2005

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the statement of net assets, statement of revenues, expenses and changes in net assets, and statement of cash flows. The notes to the financial statements are shown on pages 4 to 13 of this report.

The financial statements provide information on all functions of the Authority as business type activities. The activities of the Authority are supported by a property tax levy, fare collections from passengers, and federal and State financial assistance.

### Financial Analysis

Statement of Net Assets - Total assets of the Authority exceeded total liabilities by \$5,878,931 as of September 30, 2005. The largest portion of this excess [72.5%; or \$4,262,237 of total net assets of \$5,878,931] was invested in capital assets less any related debt that might be outstanding. The Authority used these capital assets to provide public transit services to customers and member jurisdictions; consequently, these assets are not available for future spending. Even though the Authority has no current debt, it should be noted that the Authority's investment in capital assets resources could not be used to liquidate any future liabilities. Such debt, should it occur, would need to be repaid using other sources of revenue such as property tax.

### CONDENSED STATEMENT OF NET ASSETS

	Year Ended Sept. 30, 2004	Change	Year Ended Sept. 30, 2005
Current Assets	\$ 2,822,458	\$ -168,606	\$ 2,653,852
Capital Assets [net]	<u>5,299,729</u>	<u>1,037,492</u>	<u>4,262,237</u>
Total Assets	8,122,187	-1,206,098	6,916,089
Current Liabilities	996,236	+40,922	1,037,158
Noncurrent Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	996,236	+40,922	1,037,158
Net Assets			
--Invested in Capital Assets	5,299,729	-1,037,492	4,262,237
--Unrestricted	<u>1,826,222</u>	<u>-209,528</u>	<u>1,616,694</u>
Total Net Assets	<u>\$ 7,125,951</u>	<u>\$-1,247,020</u>	<u>\$ 5,878,931</u>

Unrestricted net assets of \$1,616,694 are available to meet the Authority's ongoing obligations.

Statement of Revenues, Expenses and Changes in Net Assets - During fiscal year 2005, the Authority's activities resulted in a decrease in net assets of \$1,247,020. The decrease is largely attributable to a depreciation expense of \$1,172,868. The key elements of the changes in net assets are shown in the following table which summarizes changes in net assets for the fiscal year.

# BAY METROPOLITAN TRANSPORTATION AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2005

### CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

	Year Ended Sept. 30, 2004	Change	Year Ended Sept. 30, 2005
Operating Revenues	\$ 686,520	\$ 6,437	\$ 692,957
Nonoperating Revenues	<u>6,041,436</u>	<u>89,321</u>	<u>6,130,757</u>
Total Revenues	6,727,956	95,758	6,823,714
Depreciation Expense	1,191,505	-18,637	1,172,868
Other Operating Expenses	<u>6,590,360</u>	<u>307,506</u>	<u>6,897,866</u>
Total Expenses	7,781,865	288,869	8,070,734
Change in Net Assets	-1,053,909		-1,247,020
Beginning Net Assets	<u>8,179,860</u>		<u>7,125,951</u>
Ending Net Assets	<u>\$ 7,125,951</u>		<u>\$ 5,878,933</u>

The increase in operating revenues of \$6,437 [less than 1%] was negligible. Property tax revenues increased by \$39,091 [2.0%]. The annual rate of increase has generally been in the range of 3.0% since the millage was first approved in 1981. Investment income increased by \$17,004 [119.3%] due to improved interest rates. State of Michigan Act 51 operating assistance decreased by \$140,808 [5.1%] due to a reduction in the formula reimbursement from 42.24% to 38.44%, even though eligible expenses increased over the previous year. Federal FTA urban operating assistance increased by \$36,720. Typically a sizable portion of federal urban formula funds have been used for capital purposes. In both 2004 and 2005, however, it was felt that these funds could better be used for operating purposes, especially in light on reductions in State assistance.

The following table shows revenues and expenses by source for the fiscal year ended September 30, 2005.

	Year Ended Sept. 30, 2004	Change	Year Ended Sept. 30, 2005
Operating Revenues	\$ 686,520	\$ 6,437	\$ 692,957
Nonoperating Revenues			
--Property Taxes	1,931,668	39,091	1,970,759
--State Funds	2,737,736	98,682	2,836,418
--Federal Funds	1,357,778	-64,456	1,293,322
Interest Earnings	<u>14,254</u>	<u>17,004</u>	<u>31,258</u>
Total Revenues	6,727,956	96,758	6,824,714
Operations Expenses	5,238,021	219,658	5,457,679
Maintenance Expenses	1,371,314	29,511	1,400,825
General Administrative Expenses	<u>1,172,530</u>	<u>39,700</u>	<u>1,212,230</u>
Total Expenses	<u>\$ 7,781,865</u>	<u>\$ 288,869</u>	<u>\$ 8,070,734</u>



# BAY METROPOLITAN TRANSPORTATION AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2005

### Capital Assets and Debt Administration

Capital Assets - The Authority's investment in capital assets as of September 30, 2005, was \$4,262,237 compared to \$5,299,729 in 2004. Investment in capital assets includes: land; buildings and improvements; revenue and non-revenue vehicles; equipment; furniture, fixtures and leasehold improvements. The net decrease in investment in capital assets during the current year was \$1,037,492 [19.6%]. The most significant event that affected the Authority's capital assets during fiscal year 2005 was the annual depreciation of ten [10] revenue vehicles purchased in 2002.

The following table summarizes capital assets net of depreciation as of September 30, 2005.

	Year Ended Sept. 30, 2004	Change	Year Ended Sept. 30, 2005
Land [not depreciated]	\$ 165,894	\$ 12,990 *	\$ 178,884
Buildings and Improvements	1,985,337	-208,283	1,777,054
Revenue/Service Vehicles	2,953,924	-848,941	2,104,983
Furniture and Fixtures	4,769	-1,378	3,391
Maintenance Equipment	66,685	66,436	133,121
Shelters and Signs	7,257	-1,575	5,682
Radio Equipment	41,401	-18,214	23,187
Data Processing Equipment	<u>74,462</u>	<u>-38,527</u>	<u>35,935</u>
Net Capital Assets	<u>\$ 5,299,729</u>	<u>\$-1,037,492</u>	<u>\$ 4,262,237</u>

\*Construction in progress on driveway at Arenac Opportunities, Inc. [Standish]

Additional information on the Authority's capital assets is shown on pages 8 and 9.

Outstanding Debt - At the end of the 2005 fiscal year, the Authority had no outstanding debt. This was unchanged from the 2004 fiscal year.

### Other Significant Items

Property tax is the largest local source of revenue for the Authority and accounted for 28.9% of total revenues in 2005. In 2004, the figure was 28.7%. The Authority's property tax revenues have grown steadily at the annual rate of approximately 3.0% since the levy was first approved by the voters of Bay County in 1981. The property tax was renewed by the voters for an additional five [5] years in November 2004. The 0.75 mill tax levy will remain in effect through 2010.

The continuing difficult economic conditions affecting the State of Michigan will continue to affect the operations of the Authority. In 2005, the State formula reimbursement rate dropped dramatically from approximately 42% to approximately 38%. This 4% reduction resulted in a loss to the Authority of about \$140,000. The 38% reimbursement rate is 15% lower than the average formula reimbursement rate of the late 1990's. In 2006, the rate is projected to increase slightly to just over 39%. While this is not a significant increase, it is better than the reduction many systems were anticipating. The federal non-urban operating assistance percentage is also expected to increase in 2006 which will help to offset losses in State assistance. The federal urban assistance level for 2006 is unknown at this time. If federal operating/capital funds [FTA Section 5307] increase, and if the "transit intensive small communities" provision is funded, it should have a positive impact on the Authority's finances.

# BAY METROPOLITAN TRANSPORTATION AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2005

In order to address the loss of State formula operating assistance during fiscal year 2005 the Authority took steps to bring the anticipated net income loss under control prior to embarking on the new fiscal year which began on October 1, 2005. In addition to the many small efforts undertaken to reduce operating expenses system-wide, the two main efforts included the following activities:

- Management worked with employees and the general public to identify specific transit services that could be reduced or eliminated without having a serious negative impact on the system's passengers. Service reductions were implemented in June 2005 that are expected to result in annual savings of approximately \$250,000. Staff assignments were also adjusted with an expected annual savings of about \$85,000.
- The Board of Directors approved a retirement incentive package to encourage employees already eligible to retire under the Authority's Municipal Employees Retirement System [MERS] defined benefit plan to retire by September 30, 2005. Six [6] employees took advantage of the offer. Net annual savings to be realized by anticipated retirements are estimated to be approximately \$150,000.

Since the changes described above were implemented late in the fiscal year it was understood that the full effect of the changes would not be felt until the next fiscal year; that is, the year beginning October 1, 2005. The decision was made by management, after consultation with the Board of Directors, not to drastically reduce transportation services to the community in order to recoup the entire loss of State operating assistance during fiscal year 2005. It was understood that this would mean finishing the fiscal year in a deficit position, but the Authority felt it would not be fair to expect the local public to bear the entire brunt of the unanticipated loss of State revenues, especially in light of the financial support provided by the community for these services over the past 25 years. The focus was placed on the next fiscal year; that is, to do what was needed to make sure the financial problem which occurred during fiscal year 2005 did not continue into fiscal year 2006.

The Authority will have to continue to monitor this situation well into the future, since the financial status of the State of Michigan is not seem likely to improve very soon. Additional service reductions do not seem likely at this time.

### Requests for Information

This financial report is designed to provide our member jurisdictions, customers, investors and creditors with a general overview of the Authority's finances. Questions concerning any of the information provided in this report, as well as additional financial information, may be obtained by contacting the Chief Financial Officer at the following address:

Finance Manager  
Bay Metro Transit  
1510 N. Johnson Street  
Bay City MI 48708  
Phone: 989-894-2900, ext 206

## **BASIC FINANCIAL STATEMENTS**

BAY METROPOLITAN TRANSPORTATION AUTHORITY

STATEMENT OF NET ASSETS

September 30, 2005

ASSETS

Current assets

Cash	\$ 1,654,365
Cash on deposit with agent	150,000
Accounts receivable	72,373
Grants receivable	443,781
Inventories	294,727
Prepays	<u>38,606</u>

Total current assets 2,653,852

Noncurrent assets

Capital assets not being depreciated	178,884
Capital assets, net of accumulated depreciation	<u>4,083,353</u>

Total noncurrent assets 4,262,237

TOTAL ASSETS 6,916,089

LIABILITIES

Current liabilities

Accounts payable	238,971
Accrued wages	208,116
Other accrued liabilities	59,585
Workers' compensation liability	143,009
Deferred revenue	960
Due to Arenac Opportunities, Inc.	29,837
Compensated absences	<u>356,680</u>

TOTAL LIABILITIES 1,037,158

NET ASSETS

Invested in capital assets	4,262,237
Unrestricted	<u>1,616,694</u>

TOTAL NET ASSETS \$ 5,878,931

See accompanying notes to financial statements.

BAY METROPOLITAN TRANSPORTATION AUTHORITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES FUND IN NET ASSETS

Year Ended September 30, 2005

OPERATING REVENUES	
Sales and charges for services	\$ 692,957
OPERATING EXPENSES	
Operations	5,457,679
Maintenance	1,400,825
General administrative	<u>1,212,230</u>
TOTAL OPERATING EXPENSES	<u>8,070,734</u>
OPERATING (LOSS)	(7,377,777)
NONOPERATING REVENUES	
Taxes	1,970,759
Intergovernmental	
Federal sources	1,292,322
State sources	2,836,418
Interest earnings	<u>31,258</u>
TOTAL NONOPERATING REVENUES	<u>6,130,757</u>
(DECREASE) IN NET ASSETS	(1,247,020)
Net assets, beginning of year	<u>7,125,951</u>
Net assets, end of year	<u>\$ 5,878,931</u>

See accompanying notes to financial statements.

# BAY METROPOLITAN TRANSPORTATION AUTHORITY

## STATEMENT OF CASH FLOWS

Year Ended September 30, 2005

### CASH FLOWS FROM OPERATING ACTIVITIES

Cash receipts from customers	\$ 705,713
Cash paid to employees and vendors	(4,358,382)
Cash paid for employee benefits	<u>(2,551,330)</u>

NET CASH (USED) BY OPERATING ACTIVITIES (6,203,999)

### CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Taxes	1,970,759
Subrecipient grants received	358,891
Amounts paid to subrecipients	(349,992)
Intergovernmental operating grants	<u>3,929,161</u>

NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES 5,908,819

### CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Capital purchases	(135,376)
Capital grants	<u>125,676</u>

NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES (9,700)

### CASH FLOWS FROM INVESTING ACTIVITIES

Interest revenue	<u>31,258</u>
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NET (DECREASE) IN CASH DURING YEAR (273,622)

Cash, beginning of year 1,927,987

Cash, end of year \$ 1,654,365

### Reconciliation of operating (loss) to net cash (used) by operating activities

Operating (loss)	\$ (7,377,777)
Adjustments to reconcile operating (loss) to net cash (used) by operating activities	
Depreciation	1,172,868
Decrease in accounts receivable	12,756
(Increase) in inventories	(43,671)
(Increase) in prepaids	(198)
Increase in accounts payable	25,108
Increase in accrued wages	45,320
Increase in accrued payroll taxes	20,901
(Decrease) in workers' compensation liability	(61,149)
Increase in compensated absences	<u>1,843</u>

NET CASH (USED) BY OPERATING ACTIVITIES \$ (6,203,999)

See accompanying notes to financial statements.

# BAY METROPOLITAN TRANSPORTATION AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

September 30, 2005

### **NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Bay Metropolitan Transportation Authority was established under the applicable laws of the State of Michigan Public Act 196, as amended, to operate a transportation system within the County of Bay on November 3, 1986. Public Act 196 known as the "Public Transportation Authority Act" authorizes the formation of public transportation authorities with certain powers and duties as separate and distinct political subdivisions within the State of Michigan.

The Bay Metropolitan Transportation Authority receives Federal and State financial assistance in the form of operating and capital grant funding to support its operation, expand marketing and specialized services, and replace buses and other equipment. The Bay Metropolitan Transportation Authority provides linehaul and demand response services within Bay County. The Bay Metropolitan Transportation Authority provides services on a contractual basis to several nonprofit and governmental agencies within the County as well as other services not provided through private providers.

The accounting policies of the Bay Metropolitan Transportation Authority conform to accounting principles generally accepted in the United States of America as applicable to governmental units. In accordance with GASB Statement 20, the Authority has elected not to apply the FASB Statements and interpretations issued after November 30, 1989, to its financial statements. The following is a summary of the significant policies:

#### **1. Reporting Entity**

The accompanying financial statements are exclusive presentations of the financial condition and results of operations of the Bay Metropolitan Transportation Authority. The Authority has followed the guidelines of the Governmental Accounting Standards Board's Statement No. 14, as amended by Statement No. 39, and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements.

#### **2. Basis of Presentation**

The accounts of the Bay Metropolitan Transportation Authority are organized on the basis of a fund which is considered a separate accounting entity. The operation of the fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenses. Bay Metropolitan Transportation Authority resources are allocated to and accounted for in the individual fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The fund in the financial statements in this report is described as follows:

#### **PROPRIETARY FUND**

Enterprise Fund - This fund is used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

#### **3. Measurement Focus**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The proprietary fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Statement of Net Assets. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

BAY METROPOLITAN TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

**NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**- CONTINUED**

4. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary funds are accounted for using the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred, regardless of the timing of related cash flows.

5. Cash

The Bay Metropolitan Transportation Authority cash accounts consist of various checking and savings accounts. The balances in the cash accounts are available to meet current operating requirements. Cash in excess of current requirements is invested in various interest bearing accounts.

6. Cash on Deposit with Agent

The Authority has cash on deposit with the Michigan Transit Insurance Pool of which it is a member. The cash is being held in a premium stabilization fund on behalf of the Authority and is available, without restriction, to the Authority.

7. Inventories

Inventories consist of fuel and maintenance and repair parts and are valued on the average cost basis.

8. Capital Assets

Capital assets, which include land, buildings, vehicles, and equipment, are capitalized at total acquisition cost, provided such cost exceeds \$5,000 and the expected useful life of the asset is more than one year. Depreciation is recorded on all depreciable capital assets on a straight-line basis over the estimated useful lives of the assets.

The estimated useful lives are:

Buildings	5 - 30 years
Revenue equipment	2 - 12 years
Fare boxes	10 years
Service vehicles	2 - 12 years
Radio equipment	10 years
Furniture and fixtures	6 - 10 years
Maintenance equipment	5 - 10 years
Shelter and signs	3 - 4 years
Data processing equipment	4 - 10 years

9. Compensated Absences

Bay Metropolitan Transportation Authority employees are granted paid leave time in varying amounts. In the event of termination, an employee is paid for certain portions of unused paid leave time. This amount has been recorded in the Statement of Net Assets.



BAY METROPOLITAN TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

**NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**- CONTINUED**

10. Cost Allocations

The Bay Metropolitan Transportation Authority allocates expenses between various program activities for grant reporting purposes. The allocations are prepared based on a cost allocation plan and methodology that has been approved by the grantor agency (i.e., service hours, service miles, peak vehicle).

11. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since the inclusion of comparative data would make the statements unduly complex and difficult to read.

**NOTE B: CASH**

The Bay Metropolitan Transportation Authority is authorized to invest any of its funds in one (1) or more of the following:

1. Bonds, securities, and other obligations of the United States or any agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which it maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belong to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental agency's are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

# BAY METROPOLITAN TRANSPORTATION AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

September 30, 2005

### **NOTE B: CASH - CONTINUED**

Cash reported on the Statement of Net Assets consists of the following:

Imprest cash	\$ 347
Checking and savings accounts	<u>1,654,018</u>
Total	<u>\$ 1,654,365</u>

### Deposits

Deposits are maintained at two (2) financial institutions and are carried at cost, as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Imprest cash	\$ 347	\$ -
Insured (FDIC)	200,000	200,000
Uninsured	<u>1,454,018</u>	<u>1,491,290</u>
Total deposits	<u>\$ 1,654,365</u>	<u>\$ 1,691,290</u>

### Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's).

### Interest rate risk

The Authority has not adopted a policy that indicates how the Authority will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates.

### Concentration of credit risk

The Authority has not adopted a policy that indicates how the Authority will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer.

### Custodial credit risk

The Authority has not adopted a policy that indicates how the Authority will minimize custodial credit risk, which is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments of collateral securities that are in possession of an outside party.

BAY METROPOLITAN TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

**NOTE C: GRANTS RECEIVABLE**

Grants receivable at September 30, 2005, by grant type and year are as follows:

State Operating Assistance - FY00	\$ 106,966
State Operating Assistance - FY01	26,959
State Operating Assistance - FY04	67,354
State Operating Assistance - FY05	72,631
State Capital Assistance - Section 5313(b)	1,039
Federal Capital Assistance - Section 5313(b)	4,154
Federal Section 5311 - FY03	24,154
Federal Section 5311 - FY04	15,485
Federal Section 5311 - FY05	117,123
Federal Section 5303 - FY04	6,726
Specialized Services - FY04	801
Transportation to Work	<u>389</u>
Total	<u>\$ 443,781</u>

**NOTE D: CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2005, was as follows:

	Balance <u>Oct. 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>Sept. 30, 2005</u>
Business-type activities:				
Capital assets not being depreciated				
Land	\$ 165,894	\$ -	\$ -	\$ 165,894
Construction in process	<u>-</u>	<u>12,990</u>	<u>-</u>	<u>12,990</u>
Subtotal at historical cost	165,894	12,990	-0-	178,884
Capital assets being depreciated				
Building	4,937,914	28,108	-	4,966,022
Revenue equipment	9,332,462	9,700	( 40,692 )	9,301,470
Fareboxes	13,101	-	-	13,101
Service vehicles	222,804	-	-	222,804
Radio equipment	187,758	-	-	187,758
Furniture and fixtures	11,113	-	-	11,113
Maintenance equipment	193,231	84,578	-	277,809
Shelter and signs	45,617	-	-	45,617
Data processing equipment	<u>267,018</u>	<u>-</u>	<u>-</u>	<u>267,018</u>
Subtotal at historical cost	15,211,018	122,386	( 40,692 )	15,292,712

BAY METROPOLITAN TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

**NOTE D: CAPITAL ASSETS - CONTINUED**

	<u>Balance</u> <u>Oct. 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>Sept. 30, 2005</u>
Less accumulated depreciation for:				
Building	\$(2,952,577 )	\$( 236,391 )	\$ -	\$(3,188,968 )
Revenue equipment	( 6,404,567 )	( 849,966 )	40,692	( 7,213,841 )
Fareboxes	( 13,100 )	-	-	( 13,100 )
Service vehicles	( 196,775 )	( 8,676 )	-	( 205,451 )
Radio equipment	( 146,358 )	( 18,213 )	-	( 164,571 )
Furniture and fixtures	( 6,344 )	( 1,378 )	-	( 7,722 )
Maintenance equipment	( 126,546 )	( 18,142 )	-	( 144,688 )
Shelter and signs	( 38,360 )	( 1,575 )	-	( 39,935 )
Data processing equipment	( 192,556 )	( 38,527 )	-	( 231,083 )
Subtotal at historical cost	<u>(10,077,183 )</u>	<u>( 1,172,868 )</u>	<u>40,692</u>	<u>(11,209,359 )</u>
Net capital assets being depreciated	<u>5,133,835</u>	<u>( 1,050,482 )</u>	<u>-0-</u>	<u>4,083,353</u>
Capital assets, net	<u>\$ 5,299,729</u>	<u>\$(1,037,492 )</u>	<u>\$ -0-</u>	<u>\$ 4,262,237</u>

A summary of capital assets by funding source at September 30, 2005, follows:

	<u>Purchased</u> <u>with</u> <u>Authority</u> <u>Funds</u>	<u>Purchased</u> <u>with</u> <u>Capital</u> <u>Grants</u>	<u>Purchased</u> <u>with Capital</u> <u>Lease</u> <u>Proceeds</u>	<u>Total</u>
Land (not depreciated)	\$ 102,394	\$ 63,500	\$ -	\$ 165,894
Construction in progress (not depreciated)	-	12,990	-	12,990
Buildings	259,695	4,706,328	-	4,966,023
Revenue equipment	79,712	8,387,756	834,000	9,301,468
Fare boxes	-	13,100	-	13,100
Service vehicles	-	222,804	-	222,804
Radio equipment	77	187,681	-	187,758
Furniture and fixtures	11,113	-	-	11,113
Maintenance equipment	21,213	256,596	-	277,809
Shelter and signs	-	45,617	-	45,617
Data processing equipment	<u>132</u>	<u>266,886</u>	<u>-</u>	<u>267,018</u>
Total	474,336	14,163,258	834,000	15,471,594
Less: accumulated depreciation	<u>( 291,287 )</u>	<u>(10,084,070 )</u>	<u>( 834,000 )</u>	<u>(11,209,357 )</u>
Net Capital Assets	<u>\$ 183,049</u>	<u>\$ 4,079,188</u>	<u>\$ -0-</u>	<u>\$ 4,262,237</u>

When Federal or State funded assets are withdrawn from public transportation service, the disposition of the assets is to be determined by the United States Department of Transportation (USDOT) and the Michigan Department of Transportation (MDOT). During the year the Bay Metropolitan Transportation Authority disposed of assets that were Federally and State funded with a historical cost of \$40,692. The total amount disposed of was fully depreciated. Depreciation expense in the amount of \$1,172,868 was reported for year ended September 30, 2005.

# BAY METROPOLITAN TRANSPORTATION AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

September 30, 2005

### **NOTE E: RETIREMENT PLAN**

#### Plan Description

The Bay Metropolitan Transportation Authority participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all eligible (i.e., full-time) employees of the Bay Metropolitan Transportation Authority. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

#### Funding Policy

Covered employees currently are not required to make contributions to the retirement system. The Bay Metropolitan Transportation Authority is required to contribute the remaining amounts necessary to fund the system.

#### Annual Pension Cost

For year ended September 30, 2005, the Bay Metropolitan Transportation Authority's annual pension cost of \$438,138 for the plan was equal to the Bay Metropolitan Transportation Authority's required and actual contribution. The estimated annual required contribution was determined as part of an actuarial valuation at December 31, 2002, using the entry age normal actuarial cost method. Actual required contributions are based on actual reported monthly payroll. Significant actuarial assumptions used include (a) an 8.00 percent investment rate of return (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation and (c) additional salary increases ranging from 0% to 8.4% per year depending on age, seniority and merit. The unfunded actuarial liability is being amortized as a level percentage of payroll over a period of thirty-two (32) years.

#### Three (3) year trend information

	Year Ended December 31,		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
Actuarial value of assets	\$ 1,749,749	\$ 2,366,658	\$ 2,896,763
Actuarial accrued liability (AAL) (entry age)	4,008,623	4,990,123	6,144,256
Unfunded (overfunded) AAL	2,258,874	2,623,465	3,247,493
Funded ratio	44 %	47 %	47 %
Covered payroll	2,949,848	3,219,623	3,257,231
UAAL as a percentage of covered payroll	77 %	81 %	100 %

  

	Year Ended September 30,		
	<u>2003</u>	<u>2004</u>	<u>2005</u>
Annual pension cost	\$ 347,237	\$ 369,529	\$ 438,138
Percentage of APC contributed	100 %	100 %	100 %
Net pension obligation	-	-	-

### **NOTE F: COMPENSATED ABSENCES**

Paid leave time is accrued at the rate of 19, 24 and 29 days for one, two and five years of service, respectively, for United Steel Workers of America union employees. Unused paid leave shall be paid off on the first pay period after the employee's anniversary date. Employees may carryover a maximum of 80 hours. Vacation, sick, and personal days are no longer separately determined for this class of employees.

BAY METROPOLITAN TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

**NOTE F: COMPENSATED ABSENCES - CONTINUED**

Support personnel accrue paid leave days as follows:

Less than one year service	7 days
After one year of service	8 days
Two years of service	9 days
Three and over years of service	10 days

Management employees accrue paid leave days as follows:

Less than one year service	8 days
One to three years of service	21 days
Three to five years of service	26 days
Five and over years of service	31 days

Management employees may carry over a maximum of 40 hours, except for the General Manager, who may carry over 80 hours. Unused hours are paid out to the employee.

Teamsters union employees accrue paid leave days as follows:

After completion of probation	5 days
After one year of service	17 days
After two years of service	22 days
After five years of service	27 days

Part-time employees are eligible for 50 percent of the accrual. Each year, based on the anniversary date of employment, employees may cash in unused leave time or carry over up to forty (40) hours.

Sick leave is no longer accrued. Staff employees with five or more years seniority may receive cash for 50 percent of sick leave accrued prior to October 1, 1994 upon termination of employment, not to exceed \$1,000.

Accumulated compensated absences represent a liability to the Authority, which is presented as a current liability. A current liability of \$356,680 is reported in the Statement of Net Assets at September 30, 2005.

**NOTE G: PROPERTY TAX REVENUES**

The Bay Metropolitan Transportation Authority property tax is levied in December on the State Equalized Valuation of property located in the County of Bay as of the preceding December. Real and personal property in the County for the current levy was assessed and equalized at approximately \$2.652 billion representing 50% of estimated current market value. In November 2004, the Bay Metropolitan Transportation Authority's tax rate of .75 mills was renewed for five (5) years, expiring in December 2010. For the year ended September 30, 2005, the Bay Metropolitan Transportation Authority levied .7488 mills.

**NOTE H: RISK MANAGEMENT**

The Bay Metropolitan Transportation Authority is a member of the Michigan Transit Liability Trust Fund ("Pool") established pursuant to an Intergovernmental Agreement entered into by the member Transit Agencies and Authorities.

This Pool was established for the purpose of making a self-insurance pooling program available for Michigan Transit Agencies and Authorities, which includes, but is not limited to, bodily injury liability, property damage liability, and personal injury liability related to vehicle operation of the Bay Metropolitan Transportation Authority.

# BAY METROPOLITAN TRANSPORTATION AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

September 30, 2005

### **NOTE H: RISK MANAGEMENT - CONTINUED**

The Bay Metropolitan Transportation Authority pays an annual premium to the Pool for this coverage. The agreement for the formation of the Pool provides that the Pool will be self-sustaining through member premiums. Annually, the Authority receives notification from the Pool of retrospective claims adjustments based on the actual claims experience of the Authority and other members of the Pool. These retrospective claims adjustments, determined by the Pool, are accrued annually by the Authority upon notification.

The Bay Metropolitan Transportation Authority continues to carry commercial insurance for employee health and other insurance including general liability and commercial building insurance.

### **NOTE I: SELF INSURANCE**

The Authority is self-insured for employee's workers' compensation insurance. The self-insurance program is administered by an independent administrator who processes daily claims and performs management duties. Currently, the Authority insures claims of up to \$250,000 for an individual employee. In addition, the Authority has purchased insurance coverage to pay claims exceeding the self-insured portion. To date, the Authority has not incurred any claims exceeding the plan limit.

The claim liability at September 30, 2005, is based on the requirements of Governmental Accounting Standards Board, Statement No. 10, which requires that a liability for claims be reported if it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. The claim liability is estimated by the independent administrator.

The changes in the claim liability for the years ended September 30, 2005, September 30, 2004, and September 30, 2003 are as follows:

	<u>Beginning of Year/Period Liability</u>	<u>Current Year/Period Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>End of Year/Period Liability</u>
2005	\$ 204,158	\$ 127,239	\$ 188,388	\$ 143,009
2004	179,372	170,711	145,925	204,158
2003	87,261	165,635	73,524	179,372

### **NOTE J: CONTINGENT LIABILITIES**

Under the terms of various Federal and State grants, periodic compliance audits are required and certain costs may be questioned, allowed, or disallowed, which could result in funds being returned and/or received from grantor agencies.

There is legal action pending in three workers' compensation claims against Bay Metropolitan Transportation Authority. The first case has not yet come to trial and the Authority's attorney states that the outcome of the case cannot be determined at this time. The second case has yet to go to trial but the Authority's attorney states that a loss of \$13,000 to \$16,000 annually may be reasonably expected for the rest of the plaintiff's life which is expected to be approximately 20 years. The third case has yet to go to trial but the Authority's attorney expects the plaintiff to prevail and receive an award of \$22,856 annually for the life expectancy of 24 years. Losses under cases two and three would be covered under the Authority's self-insurance.

BAY METROPOLITAN TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

**NOTE K: POST-RETIREMENT HEALTH CARE BENEFITS**

In addition to providing pension benefits, the Authority provides certain health care benefits for retired employees. Substantially all of the Authority's employees may become eligible for these benefits if they reach the normal retirement age of 60 with at least 6 years of credited service while working for the Authority. These benefits are provided until age 65, at which time the individuals are eligible for Medicare coverage.

The cost of retiree health care benefits is recognized as an expense as insurance premiums are paid. For the year ended September 30, 2005, those costs totaled \$20,398.

**UPCOMING REPORTING CHANGE**

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting By Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.



## OTHER SUPPLEMENTARY INFORMATION

BAY METROPOLITAN TRANSPORTATION AUTHORITY

SCHEDULE OF OPERATING REVENUES

Year Ended September 30, 2005

Operating revenues	
Urban and rural fares	\$ 150,732
Contract fares	473,311
Auxiliary transportation revenue	
Administrative services	4,703
Nontransportation revenue	
Maintenance services	30,816
Central Bus Station rental	16,851
Gain on sale of capital assets	15,092
Other	<u>1,452</u>
 TOTAL OPERATING REVENUES	 <u>\$ 692,957</u>

BAY METROPOLITAN TRANSPORTATION AUTHORITY

SCHEDULE OF OPERATING EXPENSES

Year Ended September 30, 2005

	Operations	Maintenance	General Administrative	Total System
Labor				
Operator's salaries and wages	\$ 1,661,427	\$ -	\$ -	\$ 1,661,427
Other salaries and wages	342,691	522,207	414,168	1,279,066
Fringe benefits	1,839,322	340,976	332,627	2,512,925
Contractual services				
Advertising	-	-	13,381	13,381
Audit cost	-	-	12,300	12,300
Other services	28,478	37,503	51,567	117,548
Materials and supplies consumed				
Fuel and lubricants	327,864	13,326	-	341,190
Tires and lubes	25,086	569	-	25,655
Major supplies	8,489	1,516	1,512	11,517
Other materials and supplies	3,978	289,466	17,269	310,713
Utilities	-	95,565	8,860	104,425
Insurance	237,449	-	17,809	255,258
Taxes	-	-	1,069	1,069
Miscellaneous expenses				
Purchased services	125,550	-	-	125,550
Travel and meetings	976	2,639	24,492	28,107
Dues and subscriptions	-	-	18,926	18,926
Other miscellaneous expenses	4,828	50,640	13,614	69,082
Lease and rentals	-	1,387	8,340	9,727
Depreciation	851,541	45,031	276,296	1,172,868
TOTAL OPERATING EXPENSES	<u>\$ 5,457,679</u>	<u>\$ 1,400,825</u>	<u>\$ 1,212,230</u>	<u>\$ 8,070,734</u>

BAY METROPOLITAN TRANSPORTATION AUTHORITY

SCHEDULE OF NONOPERATING REVENUES - LOCAL

Year Ended September 30, 2005

Property tax	\$ 1,970,759
Interest income	<u>31,258</u>
TOTAL NONOPERATING REVENUES - LOCAL	<u>\$ 2,002,017</u>

## BAY METROPOLITAN TRANSPORTATION AUTHORITY

## SCHEDULE OF NONOPERATING REVENUES - STATE AND FEDERAL

Year Ended September 30, 2005

## State of Michigan grants

Formula operating assistance (Act 51)	\$ 2,613,252
Capital match for Section 5307 grant	16,915
Capital match for Section 5309 grant	30,706
Operating match for Section 5313 grant	5,000
Prior year adjustments	
FY 2004 operating assistance	36,620
FY 2001 operating assistance	26,959
FY 2000 operating assistance	<u>106,966</u>

Total State of Michigan operating and capital grants	2,836,418
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## Federal grants

U.S.D.O.T. operating grant - Section 5307	801,902
U.S.D.O.T. capital grant - Section 5307	67,663
U.S.D.O.T. capital grant - Section 5309	10,392
U.S.D.O.T. operating grant - Section 5311	368,006
U.S.D.O.T. planning grant - Section 5303	24,359
U.S.D.O.T. operating grant - Section 5313(b)	<u>20,000</u>

Total Federal operating and capital grants	<u>1,292,322</u>
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TOTAL NONOPERATING REVENUES - STATE AND FEDERAL	<u><u>\$ 4,128,740</u></u>
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BAY METROPOLITAN TRANSPORTATION AUTHORITY

NET ELIGIBLE COST COMPUTATIONS OF GENERAL OPERATIONS

Year Ended September 30, 2005

	Operations		Planning		Total
	Federal Section 5311	Federal Section 5307	Federal Section 5303	Federal Section 5313(b)	
Expenses					
Labor	\$ 1,228,671	\$ 1,671,968	\$ 19,282	\$ 20,572	\$ 2,940,493
Fringe benefits	1,035,661	1,460,402	12,021	4,841	2,512,925
Contractual services	73,047	70,182	-	-	143,229
Materials and supplies	344,091	344,984	-	-	689,075
Utilities	53,257	51,168	-	-	104,425
Insurance	125,076	130,182	-	-	255,258
Taxes	545	524	-	-	1,069
Purchased transportation services	64,030	61,520	-	-	125,550
Miscellaneous	59,219	56,896	-	-	116,115
Leases and rentals	4,960	4,767	-	-	9,727
Depreciation	486,562	686,306	-	-	1,172,868
Total expenses	3,475,119	4,538,899	31,303	25,413	8,070,734
Less ineligible expenses					
Central bus station	(8,967)	(9,333)	-	-	(18,300)
Association dues	(574)	(552)	-	-	(1,126)
Auxiliary transportation revenue	(2,398)	(2,305)	-	-	(4,703)
Sale of maintenance services	(15,100)	(15,716)	-	-	(30,816)
Depreciation	(480,290)	(680,093)	-	-	(1,160,383)
Total ineligible expenses	(507,329)	(707,999)	-0-	-0-	(1,215,328)
NET ELIGIBLE EXPENSES	<u>\$ 2,967,790</u>	<u>\$ 3,830,900</u>	<u>\$ 31,303</u>	<u>\$ 25,413</u>	<u>\$ 6,855,406</u>
Maximum Section 5311 reimbursement 12.40% of \$2,967,905	<u>\$ 368,006</u>				
Maximum Section 5307 reimbursement 50% of \$3,830,900, not to exceed \$801,902		<u>\$ 801,902</u>			
State operating assistance 38.437574823% of \$6,798,690		<u>\$2,613,252</u>			
Maximum Section 5303 reimbursement 80% of \$31,303, not to exceed \$24,359			<u>\$ 24,359</u>		
Maximum Section 5313(b) reimbursement 80% of \$25,413, not to exceed \$20,000				<u>\$ 20,000</u>	

BAY METROPOLITAN TRANSPORTATION AUTHORITY

SCHEDULE OF INELIGIBLE EXPENSES

Year Ended September 30, 2005

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Ineligible Expense</u>
Urban Mass Transportation Administration		
A) Operating Grants Listed on Schedule of Expenditures of Federal Awards		
	1. Central bus station - local expenses must be deducted as an ineligible expense.	\$ 18,300
	2. Association dues - a percentage of the annual dues to Transit associations must be deducted as an ineligible expense.	1,126
	3. Auxiliary transportation revenue - eligible expenses are reduced by auxiliary transportation revenue.	4,703
	4. Sale of maintenance service - eligible expenses are reduced by proceeds from services.	30,816
	5. Depreciation - depreciation on capital assets purchased with Federal and State grants must be deducted as an ineligible expense.	<u>1,160,383</u>
	Total	<u>\$ 1,215,328</u>

BAY METROPOLITAN TRANSPORTATION AUTHORITY  
SCHEDULE OF VEHICLE HOURS AND MILEAGE DATA (UNAUDITED)

Year Ended September 30, 2005

	Vehicle Hours	Public Transportation Mileage <sup>(1)</sup>
Motor bus		
1st quarter	16,992	293,293
2nd quarter	16,423	296,201
3rd quarter	16,214	290,142
4th quarter	13,552	235,948
Total motor bus	63,181	1,115,584
Demand response		
1st quarter	8,110	130,927
2nd quarter	8,215	134,624
3rd quarter	8,064	136,229
4th quarter	7,167	119,759
Total demand response	31,556	521,539
TOTAL OPERATIONS	94,737	1,637,123

<sup>(1)</sup> The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.



BAY METROPOLITAN TRANSPORTATION AUTHORITY

SUBRECIPIENT SCHEDULE OF OPERATING AND NONOPERATING REVENUES (UNAUDITED) -  
ARENAC OPPORTUNITIES, INC.

Year Ended September 30, 2005

Operating revenues	
Passenger fares	\$ 14,060
Contract fares	<u>219,763</u>
Total operating revenues	233,823
Local nonoperating revenue	
Miscellaneous	5,000
State of Michigan grants	
Formula operating assistance (Act 51)	174,818
Prior year adjustments	
FY 2001 operating assistance	1,954
FY 2004 operating assistance	<u>2,555</u>
Total State of Michigan grants	179,327
Federal grants	
U.S.D.O.T. operating grant - Section 5311	<u>56,396</u>
TOTAL OPERATING AND NONOPERATING REVENUES	<u><u>\$ 474,546</u></u>

BAY METROPOLITAN TRANSPORTATION AUTHORITY

SUBRECIPIENT SCHEDULE OF OPERATING EXPENSES (UNAUDITED) -  
ARENAC OPPORTUNITIES, INC.

Year Ended September 30, 2005

	<u>Operations</u>	<u>Maintenance</u>	<u>General Administrative</u>	<u>Total System</u>
Labor				
Operator's salaries and wages	\$ 181,528	\$ -	\$ -	\$ 181,528
Other salaries and wages	36,349	-	33,522	69,871
Fringe benefits	25,442	1,351	1,242	28,035
Contractual services				
Advertising	-	-	2,806	2,806
Other services	-	44,976	8,371	53,347
Materials and supplies consumed				
Fuel and lubricants	55,780	-	-	55,780
Tires and lubes	5,079	-	-	5,079
Other materials and supplies	-	4,967	3,301	8,268
Utilities	-	-	10,101	10,101
Insurance	29,226	-	2,135	31,361
Interest	-	-	2,136	2,136
Miscellaneous expenses				
Travel and meetings	857	173	3,715	4,745
Dues and subscriptions	-	-	2,560	2,560
Other miscellaneous expenses	-	-	681	681
Lease and rentals	<u>-</u>	<u>-</u>	<u>655</u>	<u>655</u>
TOTAL OPERATING EXPENSES	<u>\$ 334,261</u>	<u>\$ 51,467</u>	<u>\$ 71,225</u>	<u>\$ 456,953</u>

BAY METROPOLITAN TRANSPORTATION AUTHORITY

SUBRECIPIENT SCHEDULE OF NONOPERATING REVENUES - STATE AND FEDERAL (UNAUDITED) -  
ARENAC OPPORTUNITIES, INC.

Year Ended September 30, 2005

State of Michigan grants	
Formula operating assistance (Act 51)	\$ 174,818
Prior year adjustments	
FY 2001 operating assistance	1,954
FY 2004 operating assistance	<u>2,555</u>
Total State of Michigan grants	179,327
Federal grants	
U.S.D.O.T. operating grant - Section 5311	<u>56,396</u>
TOTAL NONOPERATING REVENUES - STATE AND FEDERAL	<u>\$ 235,723</u>

BAY METROPOLITAN TRANSPORTATION AUTHORITY

SUBRECIPIENT NET ELIGIBLE COST COMPUTATIONS OF GENERAL OPERATIONS (UNAUDITED) -  
ARENAC OPPORTUNITIES, INC.

Year Ended September 30, 2005

	<u>Operations</u>
Expenses	
Labor	\$ 251,399
Fringe benefits	28,035
Contractual services	56,153
Materials and supplies	69,127
Utilities	10,101
Insurance	31,361
Interest	2,136
Miscellaneous	7,986
Leases and rentals	<u>655</u>
Total expenses	456,953
Less ineligible expenses	
Interest	(2,136)
Association dues	<u>(8)</u>
Total ineligible expenses	<u>(2,144)</u>
NET ELIGIBLE EXPENSES	<u><u>\$ 454,809</u></u>
Maximum Federal Section 5311 reimbursement	
12.40% of \$454,809	<u><u>\$ 56,396</u></u>
State operating assistance	
38.437574823% of \$454,809, not to exceed \$174,818	<u><u>\$ 174,818</u></u>

BAY METROPOLITAN TRANSPORTATION AUTHORITY

SUBRECIPIENT SCHEDULE OF VEHICLE HOURS AND MILEAGE DATA (UNAUDITED) -  
ARENAC OPPORTUNITIES, INC.

Year Ended September 30, 2005

	<u>Vehicle Hours</u>	<u>Public Transportation Mileage</u>
TOTAL OPERATIONS	<u>15,305</u>	<u>385,945</u>

BAY METROPOLITAN TRANSPORTATION AUTHORITY

SCHEDULE OF EXPENDITURES OF STATE AWARDS

Year Ended September 30, 2005

<u>State Grantor/Program Title</u>	<u>Grant Number</u>	<u>Restated Program or Award Amount</u>	<u>Accrued (Deferred) Revenue at Oct. 1, 2004</u>	<u>Adjustments by Grantors to Accrued (Deferred)</u>
MICHIGAN DEPARTMENT OF TRANSPORTATION				
Operating assistance (FY 05)	N/A	\$ 2,613,252	\$ -	\$ -
Operating assistance (FY 04)	N/A	2,754,060	30,734	36,620
Operating assistance (FY 01)	N/A	2,790,680	-	26,959
Operating assistance (FY 00)	N/A	2,494,750	-	106,966
Operating assistance (FY 05)				
Arenac Opportunities, Inc.	N/A	174,818	-	-
Operating assistance (FY 04)				
Arenac Opportunities, Inc.	N/A	194,612	( 16,094 )	2,555
Operating assistance (FY 01)				
Arenac Opportunities, Inc.	N/A	196,565	-	1,954
Capital assistance - Section 5307 match	2002-0014/Z24	29,048	3,054	-
Capital assistance - Section 5309 match	2002-0014/Z21	5,000	-	-
Capital assistance - Section 5309 match	2002-0014/Z25	30,000	-	-
Capital assistance - Section 5311 match	2002-0014/Z6	38,120	( 4 )	-
Capital assistance - Section 5313(b) match	2002-0014/Z20	5,000	-	-
Specialized services 02-03 (Flow through)	2002-0014/Z26	117,106	-	-
Specialized services 03-04 (Flow through)	2002-0014/Z15	128,146	34,929	-
Transportation to Work - Bay County				
Operating (Flow through)	2002-0014/Z11	15,015	( 959 )	-
Transportation to Work - Bay County				
Operating - Michigan Works Match				
(Flow through)	2002-0014/Z16	4,170	681	-
Transportation to Work - Bay County				
Operating - (Flow through)	2002-0014/Z16	12,510	3,629	-
Transportation to Work - Bay County				
Operating Michigan Works Match				
(Flow through)	2002-0014/Z23	2,085	-	-
Transportation to Work - Bay County				
Operating (Flow through)	2002-0014/Z23	6,255	-	-
 TOTAL STATE ASSISTANCE		<u>\$11,611,192</u>	<u>\$ 55,970</u>	<u>\$ 175,054</u>

Adjusted Accrued (Deferred) Revenue at <u>Oct. 1, 2004</u>	Current Year Receipts/ (Payments)	Current Year Expenditures	Accrued (Deferred) Revenue at <u>Sept. 30, 2005</u>
\$ -	\$ 2,540,621	\$ 2,613,252	\$ 72,631
67,354	-	-	67,354
26,959	-	-	26,959
106,966	-	-	106,966
-	190,865	174,818	( 16,047 )
( 13,539 )	( 4,249 )	-	( 9,290 )
1,875	519	-	1,356
3,054	19,969	16,915	-
-	2,598	2,598	-
-	28,108	28,108	-
( 4 )	( 4 )	-	-
-	3,961	5,000	1,039
-	116,305	117,106	801
34,929	34,929	-	-
( 959 )	-	-	( 959 )
681	681	-	-
3,629	3,629	-	-
-	2,085	2,085	-
-	5,866	6,255	389
<u>\$ 230,945</u>	<u>\$ 2,945,883</u>	<u>\$ 2,966,137</u>	<u>\$ 251,199</u>

BAY METROPOLITAN TRANSPORTATION AUTHORITY

RECONCILIATION OF STATE AWARDS

Year Ended September 30, 2005

Total assistance reported on the Schedule of Expenditures of State Awards	\$ 2,966,137
State operating assistance adjustment - 03/04	36,620
State operating assistance adjustment - 00/01	26,959
State operating assistance adjustment - 99/01	106,966
Specialized services grant reported as flow through on financial statements	(117,106)
Transportation to work operating grants reported as flow through on financial statements	(8,340)
State operating assistance reported as flow through to Arenac Opportunities, Inc. on the financial statements	<u>(174,818)</u>
State assistance reported as nonoperating revenue in the financial statements	<u><u>\$ 2,836,418</u></u>



## **SINGLE AUDIT SECTION**

BAY METROPOLITAN TRANSPORTATION AUTHORITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2005

Federal Grantor/ Pass through Grantor/Program Title	Federal CFDA Number	Grantor Number	Restated Program Award Amount
<b>U.S. DEPARTMENT OF TRANSPORTATION</b>			
Federal Transit Administration			
Direct Assistance			
Federal Transit - Formula Grants <sup>(a) (b)</sup>	20.507		
Capital Assistance - Section 5307		MI-90-0448	\$ 116,192
Operating Assistance - Section 5307		MI-90-4448	765,182
Operating Assistance - Section 5307		MI-90-X474	<u>801,902</u>
Total Direct Federal Assistance			1,683,276
Passed through Bay County			
Federal Transit - Metropolitan Planning Grants	20.505		
Planning Assistance - Section 5303 04-05		N/A	24,359
Planning Assistance - Section 5303 03-04		N/A	<u>24,664</u>
Total Passed through Bay County			49,023
Passed through State of Michigan			
Federal Transit - Capital Investment Grants <sup>(a) (b)</sup>	20.500		
Capital Assistance - Section 5309		MI-03-0212	20,000
Formula Grants for Other than Urbanized Areas			
Operating Assistance - Section 5311 (FY 03)	20.509		
Arenac Opportunities, Inc.		2002-0014/Z13	49,410
Operating Assistance - Section 5311 (FY 03)		2002-0014/Z14	264,447
Operating Assistance - Section 5311 (FY 02)		2002-0014/Z5	203,401
Operating Assistance - Section 5311 (FY 05)		N/A	368,006
Operating Assistance - Section 5311 (FY 05)			
Arenac Opportunities, Inc.		N/A	56,396
Capital Assistance - Section 5311		2002-0014/Z6	152,480
Operating Assistance - Section 5311 (FY 04)		2002-0014/Z18	281,828
Operating Assistance - Section 5311 (FY 04)			
Arenac Opportunities, Inc.		2002-0014/Z19	<u>49,799</u>
			1,425,767
State Planning and Research			
Capital Assistance - Section 5313(b)	20.515	MI-80-X013	<u>20,000</u>
Total Passed through State of Michigan			<u>1,465,767</u>
TOTAL FEDERAL ASSISTANCE			<u>\$ 3,198,066</u>

<sup>(a)</sup> Denotes major program.

<sup>(b)</sup> Denotes programs required to be clustered by the United States Department of Transportation.

<sup>(c)</sup> The total federal revenue on the Schedule of Nonoperating Revenues is \$1,292,322. The total federal revenue on the Schedule of Expenditures of Federal Awards is \$1,348,718. The difference between the Federal revenue amounts is \$56,396, due to Operating Assistance - Section 5311 passed through to Arenac Opportunities, Inc.

<u>Accrued (Deferred) Revenue at Oct. 1, 2004</u>	<u>Adjusted Accrued (Deferred) Revenue at Oct. 1, 2004</u>	<u>Current Year Receipts/ (Payments)</u>	<u>Current Year Expenditures</u>	<u>Accrued (Deferred) Revenue at Sept. 30, 2005</u>
\$ 9,853	\$ 9,853	\$ 77,516	\$ 67,663	\$ -
191,125	191,125	191,125	-	-
<u>-</u>	<u>-</u>	<u>801,902</u>	<u>801,902</u>	<u>-</u>
200,978	200,978	1,070,543	869,565	-0-
-	-	17,633	24,359	6,726
<u>13,095</u>	<u>13,095</u>	<u>13,095</u>	<u>-</u>	<u>-</u>
13,095	13,095	30,728	24,359	6,726
-	-	10,392	10,392	-
4,843	4,843	-	-	4,843
19,311	19,311	-	-	19,311
11,389	11,389	11,389	-	-
-	-	270,231	368,006	97,775
-	-	-	56,396	19,348
( 14 )	( 14 )	( 14 )	-	-
38,975	38,975	23,490	-	15,485
<u>8,261</u>	<u>8,261</u>	<u>8,261</u>	<u>-</u>	<u>-</u>
82,765	82,765	313,357	424,402	156,762
-	-	15,846	20,000	4,154
<u>82,765</u>	<u>82,765</u>	<u>339,595</u>	<u>454,794</u>	<u>160,916</u>
<u>\$ 296,838</u>	<u>\$ 296,838</u>	<u>\$ 1,440,866</u>	<u>\$ 1,348,718</u> <sup>(c)</sup>	<u>\$ 167,642</u>

Principals

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors  
Bay Metropolitan Transportation Authority  
Bay City, Michigan

We have audited the basic financial statements of the Bay Metropolitan Transportation Authority as of and for the year ended September 30, 2005, and have issued our report thereon dated November 10, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Bay Metropolitan Transportation Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Bay Metropolitan Transportation Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Authority in a separate letter dated November 10, 2005.

This report is intended for the information of management and the Board of Directors of the Bay Metropolitan Transportation Authority, the Federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

November 10, 2005

East Lansing ■ Rochester Hills ■ St. Johns

Principals

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Michael T. Gaffney, CPA  
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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors  
Bay Metropolitan Transportation Authority  
Bay City, Michigan

Compliance

We have audited the compliance of the Bay Metropolitan Transportation Authority with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that is applicable to each of its major Federal programs for the year ended September 30, 2005. The Bay Metropolitan Transportation Authority's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to each of its major Federal programs is the responsibility of the Bay Metropolitan Transportation Authority's management. Our responsibility is to express an opinion on the Bay Metropolitan Transportation Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the Bay Metropolitan Transportation Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Bay Metropolitan Transportation Authority's compliance with those requirements.

In our opinion, the Bay Metropolitan Transportation Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended September 30, 2005.

Internal Control Over Compliance

The management of the Bay Metropolitan Transportation Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we considered the Bay Metropolitan Transportation Authority's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one (1) or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grant agreements caused by error or fraud that would be material in relation to a major Federal program being audited may occur and not be detected caused by error or fraud within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of management and the Board of Directors of the Bay Metropolitan Transportation Authority, the Federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

November 10, 2005

# BAY METROPOLITAN TRANSPORTATION AUTHORITY

## SCHEDULE OF FINDINGS

Year Ended September 30, 2005

### SUMMARY OF AUDITOR'S RESULTS

An unqualified opinion was issued on the financial statements of the Bay Metropolitan Transportation Authority. There were no reportable conditions disclosed by the audit of the basic financial statements. We noted no instances of noncompliance with laws, regulations, contracts, and grants that could have a direct and material affect on the financial statements.

An unqualified opinion was issued on compliance for major programs. We did not disclose any findings regarding internal controls or compliance related to the major program tested.

The major programs tested to cover 25 percent of the total Federal expenditures were the Federal Transit Cluster (CFDA 20.500 and CFDA 20.507). Total Federal expenditures for the year ended September 30, 2005, for the major program were \$879,957, which is approximately 65 percent of the total Federal Award expenditures. It was determined that the Authority qualified as a low-risk auditee.

The Federal Transit Formula Grants and Formula Grants for Other Than Urbanized Areas programs qualified as Type A. Programs of less than \$300,000 were determined to be Type B programs.

### FINDINGS/NONCOMPLIANCE

#### Reportable Conditions Related to Internal Control Over the Financial Statements.

None

#### Findings Related to Compliance with Requirements Applicable to the Financial Statements.

None

#### Findings Related to Compliance with Requirements to the Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.

None

BAY METROPOLITAN TRANSPORTATION AUTHORITY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended September 30, 2005

FINDINGS/NONCOMPLIANCE

Reportable Conditions Related to Internal Controls Over the Financial Statements.

No prior reportable conditions.

Findings Related to Compliance with Requirements Applicable to the Financial Statements.

No prior audit findings.

Findings Related to Compliance with Requirements Applicable to Federal Awards and Internal Control Over Compliance in Accordance with OMB Circular A-133.

04-1 BUY AMERICA CERTIFICATION

In the prior year, it was noted that Buy America certification was not obtained as required for a purchase of manufactured products made during the year. The Authority made no applicable purchases during the 2004/05 fiscal year and has subsequently obtained this certification on the prior purchases. This finding is considered to be resolved.

04-2 PRE-AWARD AND POST-DELIVERY REVIEWS

In the prior year, it was noted that no pre-award review was done before entering into a formal contract for the purchase of rolling stock. Also, no post-delivery review was completed prior to transfer of title in a purchase of rolling stock. The Authority made no applicable purchases during the 2004/05 fiscal year and has advised staff of the requirement for future purchases. This finding is considered to be resolved.



Principals

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MANAGEMENT LETTER

To the Board of Directors  
Bay Metropolitan Transportation Authority  
Bay City, Michigan

As you know, we have recently completed our audit of the records of Bay Metropolitan Transportation Authority as of and for the year ended September 30, 2005. In connection with the audit, we feel that certain changes in your accounting and administrative procedures would be helpful in improving management's control and the operational efficiency of the accounting and administrative functions. These suggestions are a result of our evaluation of the internal control structure and our discussions with management.

1. The Board should implement an investment policy as required by law and to address the disclosure requirements of GASB Statement No. 40.

During the course of our audit and through discussions with management, it was noted that the Authority has not implemented an investment policy as required by P.A. 196 of 1997 (MCL 129.95). Additionally, any investment policy adopted by the Authority should address the reporting requirements of GASB Statement No. 40. It is our understanding that all of the Authority's funds are currently on deposit in checking or savings accounts or held as imprest, but the Authority should implement a policy to govern future investment activity and to comply with the cited requirements.

Deposit and investment resources are significant assets of the Authority. These resources are necessary for the delivery of the Authority's services and programs. Michigan Compiled Law requires that all local units of government adopt an investment policy. The specific criteria for an investment policy are detailed in Public Act 20 of 1943, as amended. In addition, effective for the year ended September 30, 2005, GASB Statement No. 40 is designed to inform financial statement users about deposit and investment risks that could affect a government's ability to provide services and meet its obligations as they become due.

We suggest the Authority implement an investment policy as required by Michigan Compiled Law. The policy should also address how Bay Metropolitan Transportation Authority intends to mitigate custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Such additional policies are required to be disclosed in the notes to the financial statements by GASB Statement No. 40.

2. Supporting documentation should be maintained for the accounts payable receiving liability account.

During the course of our audit, it was noted that support was not maintained for the accounts payable receiving account in the amount of \$19,489. While we did not consider this amount to be material to the financial statements, it is important that adequate support be maintained for all assets and liabilities of the Authority.

We suggest that the Authority take the necessary steps to identify what makes up this balance and post appropriate adjustments to the general ledger as needed.

These conditions are considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the basic financial statements, and this report does not affect our report on the basic financial statements dated November 10, 2005.

This report is intended solely for the information and use of the management and Board of Directors of Bay Metropolitan Transportation Authority, and should not be used for any other purpose.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you and to provide assistance in the implementation of improvements.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

November 10, 2005